

## EXECUTIVE SUMMARY

# ROAD TO BALANCING THE BUDGET

### Objective

To provide the Council and community a balanced and constructive solution to meet the City's critical needs

### Challenges

#### **General Fund**

- Significant financial gap of \$2.8 million prior to adding anything to the budget.
  - Labor costs trending higher
    - Inflation 5%
    - 13% increase in medical rates
    - 132% and 17% increases in PERS and LEOFF rates, respectively
  - Revenues growing at slightly over 5% per year
- Council Budget Policy Document
  - Placed significant funding pressures on the budget to:
    - Keep fire stations open
    - Support Police operations
    - Fund critical assets
    - Fund affordable housing
  - Minimal new revenue identified
    - \$6.75 increase in business tax (yields apx. \$1 million—this is less than 1% of 2007-08 budget)
    - 1% increase in property taxes (yields apx. \$250K/biennium)
- Citizen survey indicated citizens wanted City to maintain present levels of service and consider using different funding options for capital.
- Microsoft wants City to fast track its 3.2 million square feet development in Overlake.
  - No sales tax expected due to high-tech sales tax exemption
  - Note: High-tech sales tax exemption citywide has cost Redmond \$15.6 million since its inception in 1995.
- Need to deal with the growing demands of the community

#### **Growth in Redmond Community**

<b>Growth</b>	<b>2005</b>	<b>1995/2005 % Change</b>	<b>2000/2005 % Change</b>
Employment	82,073	72%	10%
Population	47,600	19%	5%
Housing Units	22,204	21%	14%
Non-Residential Square Footage	27,279,774	44%	14%

Source: Planning Department

## **Challenges (cont.)**

- Despite growth, the City has been cutting the budget since 2001:
  - Has 17 fewer staff to respond to growing needs of the community
  - 2005-06 budget up only 1.7% in total compared to 2001-02 budget.
- Council's 6-Year Financial Plan acknowledged \$13.3 million of major deficiencies for 2007-08 but property tax levy lid lift to support these critical needs was not approved by voters.
- Risk, mandates and business continuity issues are increasing in all areas of Redmond City government which the City needs to address.

*Conclusion: Not enough money available to fund critical and immediate service needs in the General Fund without an infusion of new revenues*

## **General Capital Improvement Program**

- Critical needs:
  - Complete all projects approved and started
  - Expedite Bear Creek Parkway extension to move downtown forward
  - Construct the Northeast Education Hill Fire Station 17
  - Adequately fund fire apparatus replacement
  - Meet lease obligation for City Hall
  - Make provision for acquisition of open space, development of new parks and renovation of existing ones
  - Add money for affordable housing (no funding identified after 2006)
- Additional resources to support 2007-12 CIP total \$93.4 million with the 5% General Fund transfer and \$74.3 million without it. Primary drivers are:
  - \$55 business tax surcharge reinstated for transportation.
  - Higher impact fees approved by Council in August for Transportation, Parks and Fire total \$12.9 million. (The higher revenues are not yet included in the CIP; functional area managers will be prepared to discuss as part of budget deliberations.)
  - Significantly higher real estate excise collections based on rising prices and transaction volumes.

*Conclusion: City will be able to meet all critical capital needs with or without the 5% General Fund transfer assuming bond financing for Bear Creek Parkway.*

## **Utilities**

- Critical needs:
  - Maintain utility operations to ensure provision of water/sewer and drainage services
  - Size capital improvement programs to meet vital needs
  - Address water/sewer and stormwater issues in downtown to move this part of the City forward

*Conclusion: Current rates are not sufficient to meet the needs of the utilities and move downtown forward.*

## **Choices**

### *Raise Taxes*

- Increase property tax by 1%; generates \$250,000 for the biennium.
- Tap banked property tax capacity; worth \$2.7 million for two years.
- Ask the voters to approve a property tax levy lid lift ( $\approx$ \$38 million biennially).
- Increase business license fee by \$6.75 for inflation (\$1 million/biennium). There is no statutory limit on how much this fee may be increased.
- Implement a B&O tax on gross receipts ( $\approx$ \$35 million for the biennium).
- Tax City-owned utilities (\$5.2 million/biennium); Redmond is one of the few cities which do not tax its owned utility.
- Citizen survey indicates some support for tax increases.

### *Redirect Existing Revenues*

- 5% Transfer to CIP is worth \$5.8 million over the biennium or \$18 million over 6 years.
- \$600,000 transfer from the General Fund to support pavement management.
- \$55.00 business tax surcharge is a general revenue source which could be used to support general operations. Current Council policy restricts its use to transportation ( $\approx$ \$7.5 million biennially).
- Human services per capita transfer totals \$1.2 million/biennium.
- Arts per capita transfer is \$200,000/biennium.
- Reduce 8.5% operating reserves; balance \$4.9 million
- Reduce 25% building permit reserve requirement; balance \$1.1 million
- Citizen survey indicates support for this option.

### *Use Bonds to Finance Major Capital Projects*

- City currently has very little debt outstanding:
  - Current general obligation debt: \$42.5 million; remaining bond capacity \$728.5 million
  - No revenue bonds outstanding.
- Citizen survey indicates support for this option.

## **Choices (cont.)**

### *Use One-Time Money Remaining in the Economic Contingency*

- Economy contingency: \$1.2 million after commitment to fund 2006 Fire overtime (\$500,000)
  - To use one-time money to fund ongoing expenses is contrary to City policy, but not without precedent (e.g., Council used \$1.6 million of contingency to balance the 2005-06 budget).

### *Increase Water/Sewer And Stormwater Utility Rates*

- By law, rate revenues can only be used to support utility operations and capital programs.

### *Cut Services*

- City has been cutting services since 2001.
- Citizen survey indicates very little support for this option.

## **Mayor's Proposal**

- *Raises taxes and eliminates the 5% transfer to the CIP*
  - Addresses crucial needs in public safety while mitigating risks and ensuring continuity of City services
    - Closes financial gap
    - Keeps fire stations open
    - Supports Police operations
    - Funds critical asset replacement
    - Funds affordable housing
    - Mitigates risks, complies with mandates and ensures business continuity
  - Strikes a balance between operations and capital and averts a major crisis in operations with no significant impact on capital program
    - All critical capital projects funded.
    - Net new money added to CIP excluding the 5% General Fund transfer is \$74.3 million including newly approved impact fees.
    - CIP still has \$27.1 million unallocated at the end of 2012, counting the \$12.9 million in additional impact fees approved by Council in August.
    - Excluding the 5% transfer, general funding devoted to CIP is \$33.2 million over the next six years and includes sales tax on construction, funding for City Hall and the Pavement Management program and the business tax. This represents 8.6% of General Fund revenues.
    - Total six-year CIP is \$185.2 million.
  - Elements of the funding proposal include:
    - 1% property tax increase; generates \$250,000 for the biennium.
    - \$6.75 business tax increase; generates \$1 million/biennium (which is less than 1% of 2007-08 General Fund budget).
    - Re-directing the 5% CIP transfer to the General Fund; worth \$5.8 million in 2007-08.
- *Increase utility rates to maintain operations, move downtown forward and size capital improvement program to meet vital needs*
  - Water: 12% increase in 2007; 6% increase in 2008
  - Sewer: 19% increase in 2007; 6% increase in 2008
  - Metro: 9.2% increase in 2007 (this is a pass-through from METRO)
  - Stormwater: 44% increase in 2007 from \$11.50/month to \$16.56/month
  - Total impact on average resident in 2007-08 is \$13.49/month increase from \$65.94 to \$79.43. Of this amount, the METRO pass-through is \$2.35 and the City's portion is \$11.14.
- *Use bonds to finance major capital projects sooner than existing revenues would allow*
  - Proposes \$76.6 million in debt financing to move downtown forward
    - Bear Creek parkway extension \$28 million
    - Stormwater downtown improvements \$40 million
    - Water/sewer capital improvements \$8.6 million
  - Supportive of parks using impact fees to pay for a \$12-\$18 million bond issue for parks and open space

- *New Programs necessary to achieve budget objectives:*

***General Fund***

- Keeps fire stations open (\$1.5 million; 8.0 FTEs)
- Funds police operations (\$1.5 million; 5.0 FTEs)
- Supports basic services to mitigate risk, comply with mandates and ensure business continuity (\$2.4 million; 6.7 FTEs):
  - Forecasting and financial analysis
  - Records Management System implementation (split with Information Technology Fund)
  - Utility billing to address growth in the City and UPDs; will be 100% paid by the Utilities
  - Payroll and human resources staff to deal with citywide compensation, benefit cost containment, and recruiting issues
  - Web services
  - Teen Center risk management
  - Additional funding to recruit lifeguards at Idylwood
  - Unfunded parks maintenance for completed capital projects
  - Funding to complete high priority implementation actions for the Comprehensive Plan
  - \$1.2 million to replace critical City assets

***Recreation Activity***

- Additional Program Coordinator to assist in class operations (\$130,000; 1 FTE); offset by recreation class fees

***Water/Wastewater***

- Provide ongoing support to the Wellhead Protection Program (\$126,000; 1FTE). No fiscal impact as funding derived by reallocating existing resources used for supplemental staff.

***Information Technology***

- Data security, disaster recovery, records management and critical support (\$653,130; 1 FTE)

**Supplemental Packages (not included in budget)**

*Package #1:*

- \$30 business tax increase to further support Police and provide additional staffing at the Overlake Fire station

*Package #2:*

- Ask voters to approve a \$.26 levy lid lift to staff NE Education Hill Fire station, complete Police staffing plan and adequately address maintenance associated with new park projects, rights of way coming on line, as well as on projects associated with a citywide parks bond.

*Package #3:*

- Additional resources to expedite development review of Microsoft projects (\$4.6 million and 12.0 FTEs) over next three years. As proposed, costs will be 100% paid by Microsoft.

*Package #4:*

- Supports Parks continuing to work with the Park Board to structure a parks bond issue for acquisition of open space, development of new parks and renovation of existing ones. Debt will be paid by Parks impact fees.

*Package #5:*

- Impact fee increases adopted in August 2006 providing \$12.9 million more revenue for the 2007-2012 period. Functional area managers will be prepared to discuss how the additional funding will be used in Transportation, Parks, and Fire as part of budget deliberations.